UPREME COURT, U. S.

Supreme Court of the United States

October Term, 1973

No. 73-187

KEWANEE OIL COMPANY,
Petitioner,

vs.

BICRON CORPORATION, *et al.*,
Respondents.

ON PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

BRIEF OF RESPONDENTS IN OPPOSITION

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COUNTERSTATEMENT OF QUESTION PRESENTED

Petitioner's statement of the question presented is too broad.

The Court of Appeals concluded that a state trade secret law, which protected Kewanee in the maintenance of a monopoly of a device which was an appropriate subject for patent under the United States Patent Laws, was in conflict with the policies and purposes of those patent laws where such device had been used commercially for more than one year. The Court of Appeals reasoned that once a device had been in commercial use for more than one year so as to become prior art within the scope and

intent of the patent laws and once all rights to patent protection had been forfeited, such device could not be protected by a permanent injunction under a state trade secret law (A. 24 & 25).

Respondents submit that, in the context of this case, the question should be:

> **Whether a state law of trade secrets can permanently enjoin the use of processes and equipment which are part of the prior art in accordance with the federal patent statutes and whether any such state law is in conflict with the policies and purposes of the federal patent statutes.**

COUNTERSTATEMENT OF THE CASE

The processes, methods and techniques for the manufacture of sodium iodide scintillation crystals are described in the literature and are by no means the exclusive development of Kewanee.

Sodium iodide thallium activated crystals were invented by Professor Robert Hofstadter of Princeton University. He obtained a patent on them, which has expired. The furnaces for growing such crystals were invented by Professor Donald Stockbarger of the Massachusetts Institute of Technology, were described in published articles, and were patented by him. The Stockbarger patent has expired. Harshaw had two patents on purifying the sodium iodide for use in the manufacture of these crystals, and those patents have now expired.

In 1950, the United States Atomic Energy Commission contracted with Harshaw to work out the commercial development of scintillation crystals. This work continued through December 1953, was paid for by the Atomic Energy Commission, and was published. Between 1955 and 1960 there were a number of places where people

were doing work and writing papers on sodium iodide crystals, including the Argonne National Laboratory and the Oak Ridge National Laboratory. Three United States companies other than Kewanee and several foreign companies grow sodium iodide crystals.

Notwithstanding the statements made at pages 4 and 5 of the petition, there was no finding that any of the named defendants had breached any fiduciary or other duty by going into competition with Kewanee.

The district court held in its finding 109 as follows:

> "The Court finds that plaintiff has failed to establish by the requisite degree of proof that the named defendants breached any fiduciary or other duty by going into competition with Harshaw or by planning to go into competition with Harshaw while still in Harshaw's employ."

Additionally, Bicron contended that it had not and would not use many of Kewanee's purported trade secrets and that most of the remaining ones were in the prior art. The district court accepted these contentions.[1]

The reason that the district court issued an injunction was a conclusion that there was "imminent danger" of disclosure of Kewanee's purification trade secrets to Bicron and the use of those trade secrets by Bicron (I. 136).[2] Bicron's first attempt to manufacture a crystal had failed.

Kewanee argues that the injunction sought was solely to prevent the unauthorized use of its trade secrets and not to prevent competition, but Kewanee's clear purpose was to maintain its monopoly and eliminate Bicron as a competitor. Kewanee sought a permanent injunction to prevent the individual defendants from remaining in the

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[1] Please refer to finding of fact 46 which is reproduced at page 11 of the appendix to this brief.

[2] The reference is to page 136 of Volume I of the joint appendix of the parties in the Court of Appeals.

employ of Bicron (I. 20), which would have eliminated Bicron as a competitor. Kewanee obtained a temporary restraining order[3] which shut down Bicron for about forty days, from the date of service of the order until the conclusion of the hearing on the preliminary injunction, at which time the district court indicated that it was not going to grant the full relief requested by Kewanee and Bicron might resume operations at its own risk.

The permanent injunction issued by the district court prohibited the individually-named defendants from accepting or undertaking any employment which "*could* encourage, require, permit, call for or result in the disclosure and/or use of the trade secrets of plaintiff" (I. 138, emphasis supplied). Kewanee circulated that isolated statement in the trade with the clear implication that Bicron had to discontinue the manufacture of sodium iodide thallium activated crystals and had been eliminated as a competitor.[4] At a subsequent hearing, the district court disclaimed Kewanee's interpretation of that portion of its injunction.

Although the district court chronicled numerous instances of lack of security at Kewanee,[5] it concluded that there had not been sufficient disclosure so as to place the claimed trade secrets in the public domain. No inhibitions were placed on the movements of Kewanee employees about its plants. Access to the purported trade secrets was not restricted to those employees having a legitimate employment-related need to know them. Bicron

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[3] The temporary restraining order was issued April 17, 1970 without notice to Bicron on a bond of $5,000 (I. 24). Kewanee claimed damages of $1,000,000.

[4] The full text of the decision of the district court, however, was not available to the public but had been sealed at Kewanee's request.

[5] See findings of fact 105, 106, 107 and 108 reproduced at pages 12 and 13 in the appendix to this brief.

contended in the Court of Appeals that Kewanee had not taken the necessary precautions to maintain secrecy and that the findings of the district court supported its position, but the Court of Appeals denied this contention (A. 4).

The case was argued twice, first on October 20, 1971 and then, because one of the judges on the panel died, it was reargued on April 10, 1972.

REASONS WHY THE WRIT SHOULD BE DENIED

It Is Premature to Grant Certiorari; There Is No "Real and Embarrassing" Conflict

(1) The authorities on trade secrets and employer-employee relationships recognize a number of distinct theoretical bases for protection of the legal rights involved, such being in tort, contract, implied contract, and in equity.[6] The reason is that there are a number of different circumstances out of which the problems can arise. For instance, *Painton & Co. v. Bourns, Inc.*, 442 F.2d 216 (2d Cir. 1971), involved a license from one company to another of "know-how" engineering information, blueprints and the like on a continuing basis, which is sometimes called a technical service agreement. The precise holding of the Second Circuit is that it did not find, either in general considerations of public policy or in emanations from the federal patent law, sufficient basis for declining to enforce the provisions of the technical service agreement between the parties. The effect was that Painton had to make the royalty payments it had contracted for and was not relieved of such obligation by reason of conflict or preemption.

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[6] Volume 2, R. Callman, UNFAIR COMPETITION, TRADEMARKS & MONOPOLIES, §51 (3rd Ed. 1968); R. Ellis, TRADE SECRETS, Chapter 1 (1953).

The issue in *Water Services, Inc. v. Tesco Chemicals, Inc.*, 410 F.2d 163 (5th Cir. 1969), was whether or not a contract not to compete between an employer and his former employee was reasonable and enforceable and whether the employer had to establish the existence of trade secrets in order to enforce the contract. The court held that the contract was valid and enforceable and that the existence of trade secrets did not have to be shown in order to enforce the contract, although in fact there were protectible trade secrets involved.

Still another situation is that reflected in *United States v. Greenwald*, No. 72-2117 (6th Cir. June 1, 1973).[7] where a chemical engineer appropriated a set of handwritten formulations and was apprehended in the act of selling them to a competitor, the crucial issue being whether or not such set of formulations were "goods, wares or merchandise" within Title 18, United States Code, Section 2314.

It is premature for the Court to grant certiorari because there has not been full consideration and discussion by the lower courts of the multi-faceted issues raised in the interplay between the patent statutes and trade secrets and know-how in employee-employer relations, technical service agreements, unfair competition, and the theft of work-product documents.

(2) There is no "real and embarrassing" conflict of opinion between the decisions of the various Courts of Appeals as required by *Layne & Bowler Corp. v. Western Well Works*, 261 U.S. 387, 393 (1923).

In *Painton & Co. v. Bourns, Inc. supra*, the preemption issue was not raised by the parties but, instead, was injected into the case by the district court sua sponte. On appeal, even though the prevailing party declined to argue

[7] Reprinted as Appendix E of Kewanee's petition.

the issue, the Second Circuit Court of Appeals felt constrained to pass upon it. As previously noted, the controlling issues were contractual involving a technical service agreement and payment for past services, not an injunction.

Servo Corp. of America v. General Electric Co., 337 F.2d 716 (4th Cir. 1964), was decided right after the *Sears-Compco*[8] cases and was distinguished from them on the basis of a breach of a confidential relationship. This was five years before *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969).

Water Services, Inc. v. Tesco Chemicals, Inc., supra, was a contract case in which the federal preemption statements are pure dicta.

In *Dekar Industries Inc. v. Bissett-Berman Corp.*, 434 F.2d 1304 (9th Cir. 1970), the court devoted only one sentence[9] to the conflict question.

(3) The Court has just decided two conflict/federal preemption questions, *Goldstein v. California*, 93 S. Ct. 2303 (1973), and *City of Burbank v. Lockheed Air Terminal*, 93 S. Ct. 1854 (1973). *Goldstein* was a preemption case, the issue being whether states could pass criminal laws against tape pirates in the absence of any coverage of them in the federal copyright laws. There was no direct conflict between state and federal laws as in *Sears-Compco* and in the instant case. Furthermore, the Court distinguished between patents and copyrights and, in the paragraph preceding the quotation in Kewanee's petition (p. 9), clearly indicated that state unfair competition law could not preclude the copying of "mechanical configurations which did not possess the qualities required for the granting of a federal design or mechanical patent."

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[8] *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964); *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964).

[9] 434 F.2d at 1306.

The Decision Below Is Correct

The decision of the Court of Appeals is correct and need not be disturbed. It naturally follows from the *Sears-Compco* cases and from *Lear, Inc. v. Adkins, supra.*

A direct conflict between state trade secret law and the patent statutes results when Kewanee is permitted to obtain a permanent injunction against the use of processes and equipment which are in the prior art as defined by the patent statutes. Kewanee and other large companies have no incentive to try to patent their technical developments when they can obtain better protection via state trade secret laws.[10] It is public policy to encourage the disclosure and public use of ideas as opposed to the maintenance of trade secrets. *Troxel Manufacturing Co. v. Schwinn Bicycle Co.*, 465 F.2d 1253, 1258 (6th Cir. 1972).

The Rule of the Court Below Should Be Interpreted Reasonably: It Only Redresses the Balance Between Patents, Trade Secrets and the Public Interest.

Kewanee and the amici from which briefs are presently available characterize the decision of the Court of Appeals as one which would do away with technical service agreements and strike down all aspects of the protection and licensing of trade secrets and know-how. This is not a reasonable interpretation of the decision.

The Court of Appeals would not permit an injunction prohibiting Bicron from using processes and equipment which were part of the prior art in accordance with

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[10] In this case, for instance, with respect to trade secret 1(c), Kewanee had an allowed patent application which it deliberately permitted to become abandoned, choosing, in the words of its attorney, "not to pay the final fee and have the patent issue, but, rather, to maintain the information as a trade secret" (Tr. 1265).

the patent laws. Nothing was said, for instance, about technical service agreements. There is no reason to suppose that they are not still valid and enforceable except as to injunctions granting relief in conflict with the patent statutes.

The Court of Appeals recognized this sort of distinction in *Troxel Manufacturing Co. v. Schwinn Bicycle Co., supra,* where it decided that a patent licensee was not entitled to a refund of royalties paid on a patent which subsequently was found to be invalid. The licensee was held to his contract and made to pay for what was subsequently determined to have been in the prior art.

The decision of the Court of Appeals is not a disaster which is likely to curtail the United States research effort, upset the balance of payments and nullify all technical service agreements. Rather, it is a point from which trade secret law can develop which is not in conflict with the patent statutes, encourages the disclosure and public use of ideas, and strikes a fairer balance between the interests of those involved in this area of the law.

CONCLUSION

For the reasons set out above, the petition should be denied. The decision of the Sixth Circuit Court of Appeals is correct, there is no "real and embarrassing" conflict, and it is too soon for this Court to deal with these matters.

Respectfully submitted,

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APPENDIX

Finding of Fact 46

46. The defendants dispute the validity of each element and of each procedure and sub-process of plaintiff's claimed trade secrets as contained in PX 56. Defendants seek to defend their position by contending *that Bicron and the defendants had not, do not, and will not follow or use the following processes and elements set forth in PX 56:*

Under procedure (1): (a); (b); (c); and (i).

Under procedure (2): (a) and (b).

Under procedure (3): The first two sentences of (c); also, the following sub-process in (c);

* * * * *

also, the last sentence of (3) (c); the second sentence of (3) (d); and (3) (f).

Under procedure (4): (a) (i) and (ii); (b); (c) (ii) and (iii); (e); (g); and (i).

The defendants' second contention with regard to PX 56 is that the following elements, procedures and sub-processes thereof are in the teaching of prior art and are public knowledge.

Under procedure (1): (d); (e); (f); (g) (i) and (ii); and (h).

Under procedure (3): (a); (b) (i) (ii) (iii) and (iv); the third and fourth sentences of (c); the first and third sentences of (d); and (e).

Under procedure (4): (c) (i); (d); (f); and (h).

The Court finds that the preponderance of the evidence supports the contentions of the defendants in this finding No. 46. (Emphasis supplied.)

Findings of Fact 105-108

105. Harshaw witnesses have insisted that visitors to the areas wherein crystals were being manufactured were required to sign in and were not permitted to observe its trade secrets.

106. Harshaw's witnesses admitted that persons not employees of Harshaw were given access to the Harshaw canning and encapsulation facilities without being required to sign secrecy agreements (Tr. 336, 519-23, 529). Swinehart admitted that persons not employees of Harshaw were taken through the Harshaw purification room (Tr. 814, 822). Harshaw's witnesses admitted that persons not employees of Harshaw were taken through the Harshaw furnace room (Tr. 345, 524, 814). Nothing was covered up or concealed from any visitor during the time they were visiting the Harshaw plant (Tr. 488). No visitor to the Harshaw Elyria facility signed in. There was testimony about visitors signing in and visitor sign-in books but when presented it was found that only the employees of Harshaw signed in (Tr. 409-10, 250, 290-01; DX K, DX L, DX M).

107. Harshaw catalogues and the catalogues of International Nickel and Engelhard Industries have photographs of Harshaw crucibles, Harshaw furnaces, Harshaw string saws, Harshaw dry boxes, Harshaw purification, and Harshaw encapsulation (Tr. 94, 361-72; PX 41 A, DX A, DX B, DX I). Television station Channel 5 made a movie of portions of Harshaw's 97th Street research laboratory and showed it on television (Tr. 329). Professor Smakula from Massachusetts Institute of Technology is a consultant for Harshaw and wrote a textbook on crystal growth, and he did not clear his book with Swinehart for revelation of trade secrets (Tr. 825). Harshaw has publicized the

fact that it grows sodium iodide crystals up to 17 inches in diameter (DX D; Tr. 327). Harshaw is preparing to grow a 30-inch sodium iodide thallium activated crystal (Tr. 355). Harshaw has shown, in an advertisement, a photograph of a sodium iodide thallium activated crystal with a cone angle of 135° (Tr. 1135; DX W). Harshaw makes no claim that a 135° angle is a trade secret of Harshaw (Tr. 792).

108. Based upon findings Nos. 105, 106 and 107, and upon all the evidence in the case including the fact that other employees of Harshaw were permitted to work on and observe Harshaw's claimed trade secrets, the Court finds that not sufficient disclosure occurred so as to place the claimed trade secrets in the public domain.